

February 4, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

STATE BUDGET UPDATE

Yesterday the Senate approved a series of budget related bills, including ABX1 4 (Wesson), which would clarify the way in which the VLF trigger would work if the State could not afford to fund the VLF backfill of local governments. In taking action, the Senate, as had the Assembly last week, double-joined the major budget reduction bill, ABX1 6, with the VLF trigger amendments. The Senate also adopted a concurrent resolution to adjourn the budget special session pending approval by the Assembly.

Both the Assembly and Senate approved approximately \$3.5 billion in budget reductions in the current year, as compared to the \$5.4 billion requested by the Governor. While the reductions adopted by both houses were similar, there were differences in the bills produced by the respective budget committees that needed to be reconciled, by prior agreement so that a conference committee would not be necessary.

Fortunately, the Governor's budget reductions for the current year that directly impact the County – the reduction in the VLF backfill, the suspension of local street and road funds, a requirement that counties share in the Federal child support penalty, and the reduction in the library grant program – were not included in the actions of either body, nor were the Medi-Cal changes opposed by the County. Unfortunately, all of this may have been for naught. According to news accounts, the Governor's chief of staff has told Senate President Pro Tem John Burton that the Governor will veto AB1X 4, which would void the legislature's budget reductions that are contingent on the bill's approval.

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In remarks to reporters on Monday, the Governor repeated his concern that the VLF bill could jeopardize bipartisan cooperation on his total budget proposal and that any action on the VLF needed to be part of the discussion about how to restructure State finances to achieve greater stability.

Today, February 4, 2003, following a caucus by both parties, the Assembly convened and approved the budget bills passed by the Senate yesterday, as well as a few Senate bills that will complete the legislature's efforts to cut the current year budget when concurred in by the Senate. There had been speculation that the Assembly might remove the provision linking the budget reduction bills to ABX1 4 so that the Administration could point to \$3.5 billion in cuts when they meet with the credit rating agencies on Thursday but that was not the case. As of this afternoon, the Governor has not acted on ABX1 4.

While the fate of ABX1 4 is still uncertain, the local government backfill is safe for the rest of this fiscal year. After the Assembly initially passed AB1X 4, the Governor conceded that there was no support in the legislature to cut the backfill in the current year. However, he indicated that the reduction was still part of his FY 2003-04 Budget which he would be pursuing in the months ahead.

Assembly Public Safety Committee Hearing

At 1:30 pm on February 5, 2003, the Committee will hold a hearing in Room 126 of the State Capitol on the impact of the Governor's proposed reduction of the VLF backfill on the public safety activities of local governments. Representatives from the County Sheriff's Department, the District Attorney's office and I will testify.

We will continue to keep you advised.

DEJ:GK
MAL:JR:ib

c: Executive Officer, Board of Supervisors
 County Counsel
 Local 660
 All Department Heads
 Legislative Strategist
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
 Buddy Program Participants